

IN THE UNITED STATES DISTRICT COURT
IN AND FOR THE DISTRICT OF DELAWARE

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CHINOOK LICENSING DE, LLC,
Plaintiff,
v
ROZMED LLC, IRON DOME LLC,
JOHN J. YIM & ASSOCIATES LLC,
STEVEN S. YU, and JOHN J. YIM,
Defendants.

: CIVIL ACTION
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: NO. 14-598-LPS

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Wilmington, Delaware
Thursday, December 18, 2014
Oral Argument Hearing

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BEFORE: HONORABLE **LEONARD P. STARK**, Chief Judge

APPEARANCES: - - -

BAYARD, P.A.
BY: STEPHEN B. BRAUERMAN, ESQ., and
SARA BUSSIÈRE, ESQ.
Counsel for Plaintiffs

FINGER & SLANINA LLC
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and

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P R O C E E D I N G S

(REPORTER'S NOTE: The following oral argument hearing was held in open court, beginning at 9:03 a.m.)

THE COURT: Good morning everyone.

(The attorneys respond, "Good morning, Your Honor.")

THE COURT: I'll have you put your appearances on the record, please.

MR. BRAUERMAN: Good morning, Your Honor. Steve Brauerman from Bayard on behalf of the plaintiff, Chinook Licensing Delaware, LLC. I'm joined at counsel table by my colleague, Sara Bussiere.

MS. BUSSIERE: Good morning.

THE COURT: Good morning.

MR. FINGER: Good morning, Your Honor. David Finger of Finger & Slanina on behalf of defendants. With me as counsel is John J. Yim of John J. Yim & Associates who is one of the defendants in this case.

THE COURT: Welcome. So let me just say I know we're here for argument primarily on the motion to dismiss by the defendants. I know there is a motion for leave to amend the second amended complaint pending. Having reviewed the papers, my sense is, and I think the parties agree with this, that the proposed second amended complaint doesn't

1 really impact or change the analysis on the motion to
2 dismiss. So while I want you to feel free to touch on the
3 motion for leave to amend, in your presentation I'm going to
4 hear from defendants first, and I'm really primarily focused
5 on the motion to dismiss.

6 So with that, Mr. Finger, if it's you, you may
7 go ahead.

8 MR. FINGER: Thank you, Your Honor. Yes, I
9 spoke with counsel for plaintiff, and our thoughts were
10 along the line of what Your Honor had indicated as to how
11 we'll proceed.

12 May it please the Court, this is the time for
13 hearing the defendant's motion to dismiss. Before getting
14 to such matters as federal preemption and *Noerr-Pennington*,
15 I just want to touch on points why the complaint doesn't
16 state a claim.

17 The complaint is based on two flawed propositions.
18 The first proposition is that the settlement letter, which is
19 a factual predicate for the plaintiff's claim, plaintiff
20 claims it was not in fact a settlement proposal. As such,
21 it should not be accorded that dignity. This proposition is
22 based on an unwieldy, formalistic, and restrictive definition
23 of what is a settlement proposal.

24 Plaintiff suggests that there must be an
25 existing claim in litigation before my document can be

1 deemed a settlement proposal. However, this view has been
2 rejected by the Third Circuit, which we provided this case
3 at pages 5 and 6 of our reply brief, which states that the
4 litigation doesn't have to be threatened, much less filed,
5 for a document to be a settlement proposal. Rather, all
6 that is required is a dispute or a difference of opinion.

7 Now, plaintiff suggests that there really was
8 no genuine difference of opinion because in the settlement
9 proposal, Iron Dome agreed to compromise its claim and say
10 that Chinook owned the intellectual property. And they say,
11 "aha," that proves there is no real claim at issue.

12 Of course, this is silly because all settlement
13 offers involve compromises of claims and an agreement not to
14 pursue them in a legal forum. That is at the very essence
15 of the settlement proposal.

16 THE COURT: On that point, do you find any
17 significance in the changed language of the proposed license
18 that your client was seeking?

19 MR. FINGER: None whatsoever.

20 THE COURT: It is true, though, having to take it
21 as true at this point, that initially your client offered, I
22 have the specific language here somewhere, but essentially to
23 say, hey, this patent is valid and then later proposed it to
24 say I won't challenge the validity of your patent, something
25 like that.

1 MR. FINGER: I can't explain beyond the face of
2 it, Your Honor, but I don't think it's valid. The point is
3 they say the same thing. They basically say we're giving up
4 our rights to challenge it. That is what you expected. And
5 I don't think the other side to a settlement proposal would
6 accept the settlement proposal that didn't have language, no
7 matter how it was framed.

8 In this case, the letter itself was a lawful
9 attempt to resolve a difference. A lawful attempt. And
10 this is sort of a key dispute we're having. We have, there
11 are numerous cases we provided to Your Honor which uniformly
12 hold that a threat of litigation is not a basis for a cause
13 of action. It is an exercise of constitutionally protected
14 rights. It is considered to be the civilized way, means of
15 resolving disputes. So a threat, there are threats and then
16 there are threats. The threat to use lawful means does not
17 turn something into an unlawful act.

18 THE COURT: So you say it was a lawful attempt
19 to resolve a difference, but what interest did your clients
20 have in the validity of this patent?

21 MR. FINGER: They have an interest they wanted
22 to use the patent. They had the interest that the American
23 Invents Act gave them, gave the rights of third parties to
24 challenge patents in IPR proceedings. They have that
25 standing by virtue of there not being a direct contractual

1 interest already existing in the patent.

2 THE COURT: Is there any limitation at all on
3 what third parties can challenge regarding the validity of a
4 patent in an IPR?

5 MR. FINGER: I don't believe there is. I can
6 check to see. I'm not a practitioner, particularly not
7 before the Patent and Trademark Office. I believe, I do
8 not mean to cast aspersions, but as your Honor knows from
9 the materials we quoted in our brief, the purpose of the
10 change from an interference process to an IPR process was
11 to give people a tool to fight patent trolls, to fight
12 nonoperating entities, and that is a public policy decision
13 to get rid of these questionable patents.

14 THE COURT: In this case, again, based on the
15 limited materials I'm about to consider at this point, is
16 there any evidence of any relationship between your client
17 and any of the nine defendants that were sued in the cases
18 that are pending here in front of me or were pending at one
19 point?

20 MR. FINGER: I know of none. There is nothing
21 in the record which identifies it as that, Your Honor. So
22 as I say, this first proposition it is not a settlement
23 agreement is proven false if for no other reason than by
24 the Third Circuit's definition of a settlement agreement as
25 not being restricted as the plaintiff would like.

1 The second proposition that the plaintiff
2 proposes is that the threat of legal or administrative
3 action constitutes extortion.

4 Of course, we cited numerous authorities,
5 including Your Honor's decision in *Rader v Sharebuilder*,
6 which is affirmed by the Third Circuit for the proposition
7 that a threat of legal action alone, justified or not, does
8 not constitute extortion as a matter of law, whether for
9 the purposes of RICO, the Hobbs Act, or otherwise.

10 Plaintiff has not identified any cases to the
11 contrary. The cases he cites or it cites involve actions
12 that go beyond mere threats of legal action. They involve,
13 for example, threats of violence.

14 The one case they seem to rely heavily is the
15 *Raw Films* case in Virginia, but in that case, the evidence
16 of wrongful conduct was not the sending of settlement
17 letters. Rather, it was the fact what would happen, the
18 plaintiff would file lawsuits, make a settlement demand.
19 If he wins and gets a settlement, he dismisses it. If the
20 plaintiff did not settle it and file a motion, then the
21 plaintiff would withdraw the complaint, dismiss the com-
22 plaint before there was a judicial ruling that prevented
23 it from using that same lawsuit in other cases, the same
24 cause of action.

25 The court found that this practice of filing a

1 lawsuit and then withdrawing it upon motion raises the
2 specter this lawsuit was for an improper purpose and
3 warranted a Rule 11 investigation.

4 By contrast, the record in this case, Iron Dome
5 has prosecuted diligently at least two cases, one of which
6 they have not been successful, the other which they were
7 more successful, the *e-Watch* case. So there is no evidence
8 in this case that the threat of litigation was merely a
9 shakedown.

10 I want to make one correction to something
11 that my friend said in their brief. They stated that in
12 Virginia, there is a civil cause of action for extortion.
13 And the *Smithfield* case they cite at page nine of their
14 brief does use the phrase "civil extortion." It's a federal
15 case, not a state case. But the state cases that that court
16 cites are criminal cases and they cite the criminal statute.

17 And I have, I will hand up to Your Honor a
18 case from the Circuit Court of Virginia (1992) in which the
19 court there indicates that there is no civil recovery for
20 extortion in Virginia.

21 THE COURT: You can certainly pass it up. Why
22 don't you put on the record what the case name and citation
23 is.

24 MR. FINGER: Certainly. It is *Johnson v Friedman*.
25 It's an unreported decision, 1992 WL 884626, dated April 8th,

1 1992.

2 THE COURT: Okay.

3 MR. FINGER: One of the things, responding to
4 the plaintiff's brief, they argue that the Court must accept
5 its allegations that the settlement letter constitutes
6 extortion, but that argument is misplaced.

7 The Court, of course, must accept the factual
8 assertion that Iron Dome sent the letter, but the legal
9 conclusion, whether or not it constitutes extortion,
10 requires no deference from Your Honor. That is the issue
11 that Your Honor has to decide as a matter of law.

12 THE COURT: What about allegations that the IPR
13 is baseless and unfounded?

14 MR. FINGER: I was going to get to that, but I
15 would be happy to address that now.

16 Again, this court, not Your Honor, in 1980 I
17 think it was, this court in the *City of Newark* case, I
18 believe it was, stated that it takes more than a conclusory
19 statement, a sham to get around the *Noerr-Pennington*
20 doctrine. The cases are consistent. Sham is a conclusion.
21 We need some facts to show why it is a sham. We need some
22 facts to show why it is subjectively baseless.

23 There is a good reason for that. If one can
24 get around *Noerr-Pennington* by using "sham" or "objectively
25 baseless" without any supporting facts, any claimant would

1 be able to get around the intent of the Supreme Court in
2 the *Noerr-Pennington* cases. They would all use these magic
3 words. And if that were the case, then people who want to
4 participate in government actions, knowing that they would
5 have to be put to the expense and burden of litigation and
6 discovery through at least a summary judgment phase, would
7 be chilled from exercising their First Amendment rights.

8 Indeed, the Ninth Circuit in the case we cited
9 in our briefs pointed out that because of this, a heightened
10 pleading standard is required. So we have numerous cases
11 that state, make it clear that a conclusory statement that
12 something is a sham or is baseless is inadequate for
13 *Noerr-Pennington*. I would suggest otherwise as it is simply
14 conclusory, and on a motion to dismiss, the Court is not
15 obligated to give any deference to conclusory statements.

16 So, again, if one says "sham," one says
17 "extortion," and that is all it takes to file a motion to
18 dismiss, there would be a lot more litigation.

19 THE COURT: If one says "baseless" or
20 "unfounded," your argument is the same, is it?

21 MR. FINGER: That is exactly right, Your Honor.

22 THE COURT: But you do go to great lengths in your
23 briefing to fault their pleading for not alleging essentially
24 that no reasonable person could think they could prevail on
25 your IPR. Why is that important or would that really make a

1 difference given your arguments that "baseless" and other
2 magic words don't help them?

3 MR. FINGER: Yes, Your Honor. The point I'm
4 trying to make, if they could put down an argument or a
5 pleading saying it is baseless because this prior art is
6 XY&Z. It is baseless because ... just make a little patent
7 showing so the Court could say there is a reason for this
8 court to doubt that any reasonable person could have
9 considered this lawsuit meritorious.

10 In that regard, I do want to quote from a
11 decision. It is a decision of the U.S. Supreme Court in
12 *Pennsylvania Real Estate Investors Inc. v Columbia Pictures*
13 which we cite in our brief. It's 508 U.S. 49, at page 16,
14 No. 5 (1993). The Supreme Court said,

15 "A winning lawsuit is, by definition, a
16 reasonable effort at petitioning for redress and therefore
17 not a sham. On the other hand, when the antitrust defendant
18 has lost the underlying litigation, the court must resist
19 the understandable temptation to engage in posthoc reasoning
20 by concluding that an ultimately successful action must have
21 been unreasonable or without foundation. The court must
22 remember that even when the law or facts appear questionable
23 or unfavorable at the outset, a party may have an entirely
24 reasonable ground for bringing suit."

25 Now, if they had pleaded facts which support

1 their arguments to baselessness, we would then be able to,
2 in our brief, respond and Your Honor would have had the
3 issue squarely joined and could make an informed decision
4 as to whether it was a sham or objectively baseless. Your
5 Honor was denied that wonderful exercise because there are
6 no facts, supporting facts pleaded.

7 The point I was trying to get at, at the outset,
8 is the failure of these two propositions about whether or not
9 that is extortion, that it is a settlement letter, caused
10 their complaint to failure respective of *Noerr-Pennington* and
11 the federal exemption because for the RICO and conspiracy,
12 for the RICO claims, there has to be a predicate act. Absent
13 extortion, there is no predicate act; and although they claim,
14 again, in a conclusory form, they claim fraud, they don't
15 identify any fraudulent statements, so down goes RICO and a
16 conspiracy to commit, and the same for tortious interference.
17 Absent extortion, there is no tortious or wrongful act.

18 Additionally, I note that the communications
19 were not directed to the third parties, nor is there any
20 allegation that there were any prospective settlements being
21 negotiated that were disrupted by the letter and which were
22 not sent to those defendants to give them to the plaintiff.

23 Indeed, Your Honor could take judicial notice
24 of the fact that since the lawsuit was filed, Chinook has
25 settled with four of the five outstanding defendants in the

1 cases they brought, having previously settled with another
2 five. So there is some real question, it may not be
3 relevant at this stage and hopefully this is the last stage,
4 but whether they will be able to prove damages, but they
5 certainly haven't pleaded any.

6 On that, Your Honor I would like to turn now to
7 *Noerr-Pennington*.

8 As Your Honor is well aware, *Noerr-Pennington*
9 derives from the First Amendment clause granting citizens
10 the right to petition government for redress of grievances,
11 and it applies to the context of the USPTO proceedings as
12 well as litigation. The Supreme Court has set forth a
13 two-part test to determine the existence of sham litigation:

14 The first, suits must be objectively baseless
15 in the sense that no reasonable litigant could reasonably
16 expect success on the merits. Again, that is the *Professional*
17 *Real Estate Investors* case we cite in our brief. And as the
18 language indicates, that is a pretty high standard.

19 I have already gone over with Your Honor the issue
20 of pleading sham, which we say was not done here. And, of
21 course, I could expect plaintiff's counsel to come up here and
22 argue ably they should be entitled to get discovery because
23 discovery will help them fill the gaps in a sham.

24 However, the Court cannot ignore the important
25 constitutional countervailing principle. To allow a complaint

1 to stand based on their mere expectations of otherwise
2 privileged conduct would seriously endanger the protection
3 of constitutional rights.

4 I have already gone over with Your Honor the
5 fact that they would come up here and they would say, ah,
6 it's clear it's a sham because they lost before at the PTO,
7 but merely losing a lawsuit is not a sham any more than
8 merely losing a lawsuit means bad faith under Rule 11.
9 So they need more than just the fact that Iron Dome was
10 unsuccessful before the PTO.

11 If, and only if, that threshold of pleading a
12 sham is met, then the Court has to inquire whether the
13 suit evidences a subjective intent to use the process to
14 interfere with a competitor's business. But it's important
15 not to conflate the two elements. Initiating a legal
16 proceeding one hopes to win is within the ambit of
17 *Noerr-Pennington* even if the result harms a competitor's
18 business.

19 And unless Your Honor has any questions on
20 *Noerr-Pennington*, I'd like to turn to the federal preemption.

21 THE COURT: That's fine.

22 MR. FINGER: We claim that any claim based on
23 the prosecution of the IPR is preempted by federal law.
24 "The statute that creates the IPR proceeding already
25 prohibits any improper use" -- and I will put that in

1 quotes. That's from the language of the statute -- "of an
2 IPR proceeding and grants to the USPTO the authority to
3 impose sanctions for misusing that proceeding." That's at
4 35 U.S.C., Section 316(a).

5 The federal regulations implementing that
6 statute authorize sanctions for "advancing a misleading
7 or frivolous argument or request for relief and," also in
8 quotes, "any improper use of the proceeding."

9 The regulation also provides for award of
10 compensatory damages, including attorney fees.

11 Now, I respectfully suggest that this broad
12 language, "any improper use" and "compensatory damages" that
13 result in that improper use completely occupies the field of
14 remedies for misuse of the IPR process.

15 Now, plaintiff relied on a case, the *Cryovac*
16 case from this court, to argue that there is no preemption.
17 In the *Cryovac* case, however, the state law claim of
18 tortious interference was being brought by the patent holder
19 concurrently, or, as in this case, there is the patent holder
20 is using it and we're saying he is not bringing the IPR.
21 Interestingly enough, the plaintiff did bring an IPR sanction
22 request. We attached the holding in the PTO that there is
23 no basis for sanctions. That is Exhibit B to our motion to
24 amend. So in this, they're basically seeking a second bite at
25 the apple.

1 In this case, however, it is not factually -- it's factually
2 distinct from *Cryovac* because the patent holder is not trying
3 to use the state and federal rights simultaneously. In this
4 case, they're at odds. We're saying that he has to use one,
5 this or the other.

6 It's also not an apt authority because the issue
7 in this case is whether the federal statute and regulations,
8 as they say, occupy the entire field to determine preemption.
9 And as I said before, the language seems to suggest.

10 The *Lockwood* case that we cited at page 13 of
11 our brief is remarkably similar. There, the California
12 federal court found that a state law claim was preempted
13 because any claim of improper conduct arising from a
14 reexamination request was at worse "no more than bad faith
15 misconduct before the USPTO."

16 So if they feel that we used the inter partes
17 review for an improper purpose, the statute and regulation
18 provided a remedy for. And so it was actually challenging
19 the action we brought in the USPTO for an improper purpose.

20 I do want to say a word, Your Honor, moving on
21 now to, the claims were brought, in addition to Iron Dome,
22 against Mr. Yim and his associates. They went to great
23 lengths to sue Iron Dome's lawyer and his law firm.

24 This is very troubling and should give the legal
25 system pause. To hold that a lawyer is subject to being

1 sued in these circumstances would create quite a chilling
2 environment.

3 Our system already had procedures in place,
4 Rule 11 for improper filings and disciplinary sanctions for
5 wrongdoing. In fact, I will bring to the Court's attention
6 that Chinook filed ethics complaints against Yim in four
7 jurisdictions where he submitted the basis upon his sending
8 a settlement letter. This is just simply extreme conduct.

9 I would also bring to the Court's attention that
10 the Third Circuit's recognized that where an attorney acts
11 within the scope of the attorney-client relationship, there
12 is no conspiracy between the lawyer and the client. That is
13 in a case called *John Heffernan v. Robert W. Hunter*, 189
14 F.3d 405, at 407. It's a Third Circuit case in 1999. This
15 also relates back to the invalidity of the RICO claims.

16 There simply is no factual allegation or legal
17 authority supporting any claim against Mr. Yim or his firm
18 and, in any event, they should be dismissed.

19 The last thing on the agenda. I'm sorry, Your
20 Honor. Did you have a question?

21 THE COURT: I wasn't sure, but I am going to.
22 There is an allegation that at least Mr. Yu is the managing
23 member of Iron Dome. Mr. Yu is one of the defendants;
24 correct?

25 MR. FINGER: That's correct, Your Honor.

1 THE COURT: Is it your interpretation here that
2 he is sued not in his capacity of managing manager of Iron
3 Dome but in his capacity as an attorney?

4 MR. FINGER: No, Your Honor. He is being sued
5 in his capacity of managing director.

6 THE COURT: It's Mr. Yim being sued as an
7 attorney?

8 MR. FINGER: Yes.

9 THE COURT: I see. Thank you.

10 MR. FINGER: I want to touch for a moment on the
11 motion to amend. As Your Honor pointed out, I think every
12 one agrees that it's the tail, and it doesn't change things.
13 What it shows is that in their amendment, they are not able
14 to cure the deficiencies of pleading necessary to overcome
15 these issues of preemption and *Noerr-Pennington*. Therefore,
16 we would request, Your Honor, that this action be dismissed
17 with prejudice.

18 THE COURT: Just touch briefing on plaintiff's
19 standing. I think you are arguing that they lack standing;
20 is that correct?

21 MR. FINGER: They lack standing?

22 THE COURT: I may be mistaken, but I thought
23 you had an argument that they lacked standing even to bring
24 this suit.

25 MR. BRAUERMAN: I think there was a reference to

1 their lack of standing to bring an extortion claim because
2 it's not a civil claim.

3 THE COURT: But it's not a broader argument that
4 the whole case should be dismissed on the lack of standing?

5 MR. FINGER: No.

6 THE COURT: All right. We'll save the rest of
7 your time for rebuttal.

8 MR. FINGER: Thank you, Your Honor.

9 THE COURT: Thank you very much.

10 Mr. Brauerman.

11 MR. BRAUERMAN: Thank you, Your Honor. Steve
12 Brauerman on behalf of plaintiff Chinook Licensing Delaware
13 LLC.

14 I, too, Your Honor, do understand they made a
15 broader standing argument under Rule 12(b)(1). In light
16 of Mr. Finger's representation that they do not, I do not
17 intend to respond to that, but if Your Honor wants to hear
18 from me on that, I'm happy to.

19 I'd like to address first the argument that the
20 letter is or is not a settlement proposal. That is, at this
21 stage, largely irrelevant regardless of how that outcome
22 comes. They rely on Rule 408 which is a rule of evidence
23 which excludes the admissibility of certain evidence at
24 trial. At the pleading stage, though, that has no bearing
25 on whether we have stated a claim and no bearing on whether

1 the facts we allege state a claim.

2 Nevertheless, I think the weight of authority
3 is against them. First of all, we allege that was no
4 relationship between Chinook and Iron Dome that predated
5 the settlement letter or the demand letter, I'll call it.

6 The demand letter is not a letter designed to
7 resolve a dispute. The demand letter is the letter that
8 created or sought to create a dispute. That is not
9 protected under Rule 408.

10 It's important to note that while the IPR is
11 litigation like, it is not litigation. They did not cite
12 a single case that applied Rule 408 protections to
13 prelitigation conduct of an administrative proceeding, or
14 prefiling conduct of an administrative proceeding. So they
15 cannot hide behind Rule 408 to avoid it.

16 At this stage, the Court needs to accept our
17 allegations as true. The issue here and the allegations
18 of the settlement letter, and it gets into all their other
19 arguments, are that they took the position through that
20 correspondence that the patent was both valid and invalid at
21 the same time. One of those statements is false.

22 I've been involved in a lot of settlements.
23 In none of those settlements does a party admit that they
24 infringed or that a claim was valid or invalid. Rather,
25 they give up their rights to pursue that, which is exactly

1 what Iron Dome has changed the language of its agreement to do.

2 That is telling here. That is an admission that
3 what they did was improper, that what they did was fraudulent,
4 and that what they did was extortion. At this point, those
5 facts alone are sufficient to survive a motion to dismiss.

6 Your Honor addressed *Noerr-Pennington*, and I
7 apologize we didn't cite this decision in our papers. It
8 came out somewhat around the same time we were briefing.
9 It's *S3 Graphics Company v ATI Technologies*, 2014 WL 573358.
10 It was a decision by Your Honor where you addressed both
11 *Noerr-Pennington* and preemption in that case.

12 I'll get to those two issues in a little bit in my
13 argument, but the point I want to make now is that Your Honor,
14 in addressing these claims, said that it was premature at the
15 12(b)(6) stage to decide those when you had to accept the
16 factual allegations as true. That is where we are here.

17 Regardless of whether it's a settlement proposal
18 or it's characterized as a settlement proposal, Rule 408
19 does not protect them. We don't think it falls as a matter
20 of law as a settlement proposal, but even if it did, Rule
21 408 doesn't help them on a motion to dismiss.

22 THE COURT: I'm not sure if Mr. Finger even
23 mentioned Rule 408 this morning. I know it's in the briefing.
24 But let's just say for argument's sake you are right about
25 408 doesn't defeat their motion. That's not the end of the

1 analysis, is it?

2 MR. BRAUERMAN: Well, I think that it is. But
3 they made an additional argument, which I also think fails,
4 which is simply alleging a threat to bring a lawsuit is not
5 actionable. That is not, as a factual matter, what they
6 did or what we alleged that they did.

7 What we alleged they did is they took a position
8 they knew was baseless, and we said that, and we disagree
9 that we need to go through the merits of the claim or the
10 merits of the IPR to provide the Court with facts from which
11 the Court can infer that it was baseless.

12 We said they took two conflicting positions in
13 the correspondence. Those positions cannot be reconciled.
14 They were done for the sole purpose of interfering with our
15 relationship, trying to steal essentially Chinook's patent
16 so that they could license the or sell it to third parties.

17 Your Honor asked whether they can or Mr. Finger
18 maybe made the point they didn't actually communicate with
19 the third parties involved in the suit. That is not true.
20 They issued a press release the day they filed the IPR.
21 That press release went out to the world. That included the
22 defendants. There may be facts in discovery that showed
23 direct correspondence from, between Iron Dome or Mr. Yim
24 or Mr. Yu or RozMed and the other defendants, and we're not
25 required at this stage to do that.

1 We did allege injury. We did allege damage.
2 That settlements were reached does not indicate that Chinook
3 suffered no damages. Chinook hasn't filed any additional
4 lawsuits against other infringers of its technology. That
5 is damage that has been caused and alleged in the complaint.

6 So the allegations of damage, and I don't
7 actually understand them to be saying we haven't stated
8 damage or at least to avoid that on the standing issue, but
9 I did want to raise that.

10 On their second point, that the threat of legal
11 or administrative action does not, by itself, constitute
12 extortion. One is I think contrary to the law. Two is it
13 doesn't address the other bases under which we based the
14 RICO claim, which includes mail fraud, wire fraud, and the
15 Travel Act. That may address the Hobbs Act and extortion,
16 but they don't touch any of the mail fraud or wire fraud.

17 The fraudulent statement alleged is that the IPR
18 or the patents, rather, are invalid while they simultaneously
19 believe the patents are valid. They can't hold those two
20 positions simultaneously. To make that statement is
21 fraudulent; and that is the statement on which we allege,
22 and on which we blame, we base, excuse me, the RICO claims.

23 There is no question that Chinook identified the
24 fraudulent acts with specificity. The who, what, when,
25 where, and how of the correspondence of the fraudulent

1 statement of the reliance are all alleged in the complaint.

2 THE COURT: But it all goes back to the
3 settlement or demand letter and the threat to initiate the
4 IPR; right? All the claims go back to that eventually;
5 correct?

6 MR. BRAUERMAN: That's correct.

7 THE COURT: So come back to the language that
8 you are relying on which as I understand it was in the first
9 proposed license whereby Chinook agreed to say the patent is
10 valid essentially; correct?

11 MR. BRAUERMAN: Iron Dome.

12 THE COURT: I'm sorry.

13 MR. BRAUERMAN: So what they did is they sent
14 us correspondence. They said give us, I think it was three,
15 three royalty-free transferable licenses so that we can --
16 and to be clear, this is not, Iron Dome is not a practicing
17 entity trying to be free of our patent. They want licenses
18 that they can transfer to third parties and undercut our
19 licensing efforts. So in that context, they said give us
20 three royalty-free licenses for no consideration or we're
21 going to invalidate your patent -- or we're going to seek to
22 invalidate your patent.

23 We're not saying there is a basis to do that.
24 Yes, we put together a 100 page petition. That petition, it
25 was baseless. We allege that it was baseless. The PTO

1 agreed with us that it was baseless; and we'll get to the
2 effects of that in the presumption there. But the length
3 of a document or the fact that it put together claim charts
4 does not mean that it is not baseless. It does not mean
5 that they didn't know at the time that it was baseless. And
6 the way we know they know at the time is because they were
7 willing to agree in a contract, if we gave them what they
8 wanted that, the patent claims were valid.

9 THE COURT: I think this is part of their
10 argument, this happens all the time in settlement discussions.
11 You have to be willing to stake out a particular position and
12 then ultimately willing to compromise that position. How is
13 this any different than that?

14 MR. BRAUERMAN: Well, I don't agree that this
15 happens in settlement communications all the time. And as I
16 said earlier, I have yet to have an accused infringer or
17 when I represent the accused infringer admit that they
18 infringed a patent or that it was valid.

19 Rather, in nearly every settlement -- and
20 again it's somewhat beyond the record so I don't think it's
21 appropriate to consider that at all at this stage, but even
22 if Your Honor were to, I don't think that is a correct
23 statement of fact as it happened.

24 They could have given up their right to file the
25 IPR. That may have made our claim more difficult. I don't

1 know that it would have foreclosed it altogether.

2 THE COURT: Well, I want to focus on that.

3 Because, and you are right to bring us back to the record,
4 paragraph 29, I'm looking at your proposed second amended
5 complaint. But this paragraph appears maybe at a different
6 number in the earlier, first amended complaint.

7 Your paragraph 29 quotes their paragraph 5 of
8 the initial draft license, which says, it was entitled
9 Admission of Patent Validity. "Iron Dome admits that the
10 asserted patent is valid and enforceable and as such will
11 not challenge or participate in any challenge to the
12 validity and enforceability of the asserted patent in any
13 kind of legal proceeding."

14 That is the language you are relying on; right?

15 MR. BRAUERMAN: That's correct. I'm sorry.

16 THE COURT: Essentially what you are telling me
17 is it is not in the record but unusual in your experience,
18 maybe unprecedented in your experience.

19 MR. BRAUERMAN: That is correct. But I want to
20 clear. It's not just that statement, it's the entirety of
21 the actions that they did. It's the content of their
22 letter. It's the way they have proposed that we think they
23 are abusing, if not the letter, the spirit of the IPR rules.
24 The creation of this, and Mr. Finger is incorrect and I
25 think the legislative history will bear me out, was not to

1 stop patent trolls. What it was to do was to address bad
2 patents and to provide opportunities to, in a supposedly
3 less expensive and faster process to District Court
4 litigation, to address invalidly issued patents. That is
5 the purpose of the IPR statute. I believe the legislative
6 history of the AIA bears me out on that.

7 THE COURT: But what about the statute? Is
8 there any limitation on who can initiate an IPR?

9 MR. BRAUERMAN: No, not in the letter of it.
10 But I think, and there have been discussions in the press
11 and among the community, we're going to see some sort of
12 patent reform. The purpose of this was not to create a side
13 business for a party that has no interest in the patent, no
14 rights, doesn't practice, doesn't want to do anything other
15 than undercut.

16 THE COURT: Well, that all may be so, and you
17 might be right on what the policy should be and how the law
18 maybe should change, but the law as it is now, as you have
19 acknowledged, doesn't place those limitations on who can
20 initiate an IPR. So at base, isn't it true, as a matter
21 of law, that what the defendant here has done is protected
22 legal activity?

23 MR. BRAUERMAN: No, because they filed a baseless
24 IPR.

25 THE COURT: Well, let's assume for the moment it

1 was baseless. What, in the IPR statute, gives rise to the
2 possibility that it could be extortion or some other tort to
3 file a baseless IPR petition?

4 MR. BRAUERMAN: Well, certainly, Your Honor,
5 they have -- and we're not, we didn't question this. They
6 have the right to file the IPR. That doesn't make it not
7 extortion. It's difficult to answer that question because
8 certainly no patent statute is going to give rise directly
9 to a cause of action for extortion. And,

10 Let's be clear. We haven't asserted a cause
11 of action for extortion. So whether Virginia recognizes a
12 civil right for extortion is irrelevant. The predicate act
13 to a civil RICO claim can be a criminal act, so the fact
14 that we couldn't bring a criminal extortion claim is somewhat
15 irrelevant.

16 THE COURT: Well, at a broader level, the
17 defendants cite a lot of case law, including I think a Tenth
18 Circuit case, which cites a bunch of others, that says even
19 baseless or frivolous litigation cannot be the basis for the
20 type of claim, be it extortion or tortious interference,
21 that you're trying to bring. Aren't those cases correct?

22 MR. BRAUERMAN: I wasn't involved in those
23 cases. Whether they're correct, they are decided. None
24 of them I believe is binding precedent on Your Honor.

25 The issue there is that, one, this isn't

1 litigation. This is an administrative proceeding. None of
2 those claims cover.

3 THE COURT: Why should that make any difference?

4 MR. BRAUERMAN: It should make a lot of difference
5 because the point of this -- because they fabricated the right,
6 essentially. There is no relationship between the parties,
7 even baseless or ultimately unsuccessful litigation.

8 THE COURT: But, again, you have already
9 acknowledged, I think as you have to, Congress made that
10 decision. They created this statutory right without a
11 limitation. Right or wrong, that is the law right now,
12 isn't it?

13 MR. BRAUERMAN: Yes.

14 THE COURT: So then to say they didn't have
15 some other interest, I mean as a matter of law they had an
16 interest, the same interest evidently that any one of us
17 shared theoretically. If we thought this was a patent that
18 should go through IPR, we could attempt to initiate it.

19 MR. BRAUERMAN: The issue is not the filing of
20 the IPR. That is not the fraudulent act. The fraudulent
21 act -- and it's not even the threat of it. The fraudulent act
22 is that they took simultaneously two inconsistent positions
23 that the patent was valid and that the patent was invalid and,
24 through that, attempted to take valuable property rights that
25 they don't have an entitlement to. And they don't. If they

1 pursue the IPR, the best case scenario they get is that it
2 gets invalidated. It doesn't give them a license and it
3 certainly doesn't give them a transferable license.

4 So what they tried to do was to take a valuable
5 property right belonging to my client that they had no right
6 to take, that they had no right to obtain through the threat
7 of improper action. And we're beyond a baseless suit.
8 We're in a suit that has a totally different purpose, that
9 its intent is to take the property. Because they understand
10 the practical realities, the cost and expense of that and
11 the impact it would have on the already pending litigation,
12 and they acknowledge that their business model is to go out
13 and seek nonpracticing entities who are enforcing validly
14 issued patents from the government and try to take those
15 rights from the defendant. And they try to hold themselves
16 up as the equivalent of an RPX or a unified patent, and they
17 are just not. That doesn't get them there. And it doesn't
18 overcome the allegations.

19 Even if it were true, that doesn't get -- even
20 if Your Honor were to accept their argument that they had
21 the right to do this and follow those cases that said that
22 baseless litigation does not give rise to a cause of action,
23 then they still don't address the mail fraud predicate act,
24 they still don't address the wire fraud predicate act, and
25 they still don't address the treble predicate act, so the

1 RICO claim still survives.

2 THE COURT: But the fraudulent statement that
3 all those rely on is this one sentence in paragraph 5(a),
4 we recognize the patent is valid and yet everything else
5 they're doing is inconsistent with that?

6 MR. BRAUERMAN: I'm not sure I follow the second
7 half of your statement.

8 THE COURT: Tell me about the fraudulent portion
9 of the statement. What is the allegation? There is mail
10 fraud, wire fraud, or any of the other types of fraud.

11 MR. BRAUERMAN: Yes. It's that they transmitted
12 through the mail, or the wire, or both their fraudulent
13 statements contained in their letter, the threats contained
14 in their letter that they would take this action against what
15 they acknowledge is a valid patent in order to essentially
16 take licenses to which they're not entitled that they could
17 then shop to third parties.

18 THE COURT: So, in your view, the fraud is
19 anything they have said to suggest that the patent is not
20 valid.

21 MR. BRAUERMAN: While simultaneously
22 acknowledging that it is. They could have said we don't
23 think your patent is valid but we won't file an IPR if we
24 give you a license.

25 THE COURT: Do you allege that anywhere they

1 said that the patent is valid other than this paragraph 5 of
2 that first proposed license?

3 MR. BRAUERMAN: We have incorporated the letter
4 by reference. They may have made references to that in
5 the letter, but it would be in the letter and in their
6 agreement.

7 THE COURT: The letter says, and I'm looking at,
8 it's Exhibit A to D.I. 1, I think your original complaint.
9 It's probably elsewhere as well: "Although the validity of
10 the asserted patent is questioned, we wish to acquire
11 retroactive and fully transferable licenses to the asserted
12 patent."

13 I believe that is all they say about the
14 validity of the patent. I guess at the beginning of the
15 earlier paragraph, they say, "This letter addresses the
16 invalidity of the patent asserted by Chinook against ...,"
17 and then they list a number of defendants in cases pending
18 here.

19 So having tried to recite the letter to you, do
20 you believe that you allege anywhere else that the defendant
21 acknowledges the validity of this patent?

22 MR. BRAUERMAN: No. I think, Your Honor, it
23 is from paragraph 5 of the license agreement. But I don't
24 think we need to address any more of that. The license --
25 and you don't get to hide behind a settlement agreement just

1 by labeling something a settlement agreement or arguing.
2 And it's not a settlement agreement, it's a license agreement.
3 Either the license agreement is fraudulent or the IPR is
4 fraudulent, because those two statements are inconsistent.
5 But there is nothing about the license agreement that is a
6 settlement agreement. It's a license agreement. I think
7 that is a distinction.

8 The other I think factor to consider in that
9 context is in order for their licenses to be valuable or
10 to be able to subsequently transfer them, they can't have
11 hanging out there their public statements that the patents
12 are invalid. That minimizes the value of their licenses.
13 So it is in their interest, if they're able to extort a
14 license, to change their position and defend the validity of
15 the patent because that is how they're going to make their
16 money on the back end.

17 None of this, by the way, addresses tortious
18 interference. So even if Your Honor were to find that it
19 didn't constitute extortion, it doesn't address the tortious
20 interference. The tortious interference acts are alleged in
21 the complaint, and it includes their press release which was
22 certainly seen by the defendants in the litigation and had
23 an impact on it, as we alleged in the complaint.

24 They argue that the state law tortious
25 interference claims are preempted by the federal regulation.

1 They are incorrect. There is no statute that
2 expressly preempts these state law claims. In the absence
3 of a statute, preemption occurs when compliance with the
4 statute with state law and federal laws is not possible. We
5 don't have that here.

6 They rely on the authorizing regulations where
7 the Patent and Trademark Office refused to sanction their
8 conduct.

9 Two points on that: The first is the
10 proceedings were never initiated. The Patent and Trademark
11 Office denied their petition to institute the proceedings.
12 Therefore, there cannot be misconduct in the proceedings.

13 Second, the Patent and Trademark Office didn't
14 reach the merits of their action. They dismissed it on
15 procedural grounds, not on substantive grounds, so there is
16 no second bite at the apple.

17 THE COURT: Is there anything in the PTO's
18 handling of their IPR that would suggest the PTO believed
19 it to be frivolous, sanctionable, even fraudulent? Is there
20 anything in how they handled it that would suggest that?

21 MR. BRAUERMAN: Not other than their denial,
22 but I don't believe that the PTO had knowledge of the
23 extortion that predated the filing of the IPR. I suspect
24 that those acts were put in front of them as part of the
25 sanctions motion but not as part of the substantive decision

1 on the merits of whether to institute the IPR.

2 They denied to institute the IPR for legal
3 reasons. They did not reach a conclusion that the filing was
4 frivolous, but there are facts and circumstances surrounding
5 it that I think weigh on that decision that I don't believe,
6 other than through the sanctions conduct, which again the PTO
7 didn't address on the merits, was before the PTO. I believe
8 it was denied, and I could be wrong about this without a
9 response from the patent holder so I may be incorrect on that,
10 but they denied the institution of the IPR.

11 Now, they are denying more and more, but
12 historically IPRs get granted with fairly high frequency. I
13 think the Court can conclude that the fact that this one
14 didn't supports our allegation that, by itself, wouldn't
15 be enough but supports our allegations and, read in the
16 entirety of the complaint, is sufficient to survive a motion
17 to dismiss at this stage of the litigation.

18 THE COURT: Do you allege that no reasonable
19 litigant could have realistically have expected success in
20 the IPR petition?

21 MR. BRAUERMAN: Not in those words, but I don't
22 believe we're obligated to do so in those words; and I think
23 it is certainly a reasonable inference from saying it is
24 without merit, it is baseless, it is unreasonable that the
25 Court can conclude from that and can infer no reasonable

1 litigant can do it.

2 If the Court finds those magic words are
3 required, then we should be given leave to add them, but
4 that I think elevates form far over substance given it is
5 inconsistent with *Iqbal* and *Twombly* as requirements at the
6 pleading stage. I think we do in substance allege that,
7 but certainly we did not use those words.

8 THE COURT: Do you acknowledge you would have to
9 prove that to prevail on all of your claims?

10 MR. BRAUERMAN: I don't believe to prevail on all
11 of our claims, but certainly to overcome *Noerr-Pennington* we
12 would have to. I don't think for the tortious interference
13 necessarily we would have to. It may not be for some of
14 the - I think it can be a fraudulent statement even if an
15 objective person didn't have that, so the mail fraud and
16 wire fraud, predicate acts may still survive.

17 But certainly proving that at trial or getting
18 past summary judgment, if there are no facts in dispute
19 after discovery is found, our ability to overcome that
20 hurdle I think would be difficult in prevailing at least on
21 the extortion based on predicate acts.

22 THE COURT: Come back to preemption. You say
23 there is no conflict. I'm not sure I understand that. I
24 think you have acknowledged that anyone has the right to
25 file an IPR, even a baseless IPR. Yet, at the same time,

1 you're turning around and saying that is tortious
2 interference under Virginia common law. Isn't that a
3 conflict?

4 MR. BRAUERMAN: No. No, it's not a conflict.
5 Just because you have a right to enforce something doesn't
6 mean the way in which you exercise that right doesn't create
7 state law claims.

8 This is where I think the *S3 Graphics* case is
9 instructive. Because there, Your Honor, the complaint
10 asserted both patent infringement claims and state law
11 claims involving conversion and unfair competition. They
12 were related. The federal law in that case had also
13 addressed -- and there was an element of marking the patent
14 that was involved in there. The federal law dealt with
15 marking. The state law, the patent holder was permitted to
16 bring claims also related to the same underlying fact but
17 under a different cause of action in an unfair competition
18 cause of action.

19 Here, they may have the right to petition the
20 IPR, but that doesn't -- to petition the PTO to institute
21 the IPR. That doesn't mean that their issuance of a press
22 release, the manner in which they did didn't tortiously
23 interfere with our relationships. It didn't mean it wasn't
24 a baseless action or we couldn't pursue it even if sanctions
25 aren't available or were declined to be available in the IPR.

1 The other issue is that it is activity not
2 necessarily limited to the IPR but it is activity that
3 preceded, I think only preceded the institution of the IPR
4 that is the subject of the state law claims and certainly
5 preceded the rejection of the IPR, but there is no federal.
6 But here it's important on preemption to consider intent,
7 too. Had Congress wanted to preempt all state law remedies
8 here, they had the ability to do that. They didn't do.
9 That I didn't use the language of exclusivity here. This
10 court and others and Your Honor in *S3 Graphics* held that
11 federal patent laws don't preempt state law causes of action
12 for conversion and unfair practice. That same reasoning
13 applies to state law tortious interference claims.

14 There is not -- well, I still don't think it
15 would be preemption, but it would be a more difficult
16 argument if the only basis for the tortious interference
17 claim were the filing of the IPR. That is not, though. It
18 is the acts leading up to it. It is the issuance of the
19 press release which is the act that actually caused the
20 interference. We allege all of those elements, so we don't
21 believe there is any preemption here.

22 I wanted to add one more point on the
23 *Noerr-Pennington* doctrine, and we cited this case law in our
24 brief. When the speech itself, the letter, is the vehicle
25 used to commit the fraud, it's not protected. So it's not

1 protected speech when it's the vehicle of the crime itself.
2 Here, the letter was the vehicle of the crime, and it is not
3 protected as a matter of law.

4 On the point with respect to absolute privilege,
5 absolute privilege applies under Virginia law to defamation
6 actions, not tortious interference claims. We're not bringing
7 a defamation action. We're not wrapping a defamation action
8 in a tortious interference claim. There is no basis to apply
9 the absolute privilege claim.

10 Moreover, the absolute privilege claim only
11 applies when the statement is material, relevant or pertinent
12 to the judicial process. The letter, which is the basis of
13 the tortious interference claim, and the press release were
14 neither material, relevant or pertinent to the judicial
15 process.

16 Again, it wasn't a judicial process. It was an
17 administrative -- it was a voluntary administrative process.
18 They were under no threat of harm from Chinook. They don't
19 make any products. They were not accused infringers. They
20 could not have had standing to bring a D.J. action. There
21 were no claims prior to the letter being sent that could be
22 protected or could be made to which the privilege would have
23 applied.

24 I wanted to address very briefly the motion for
25 leave to amend.

1 Your Honor is well familiar with the standard.
2 Leave is freely given. There has been no evidence of undue
3 delay, bad faith, dilatory motive or undue prejudice.
4 Rather, they argue futility which is based solely on their
5 motion to dismiss arguments.

6 We, for the reasons we have stated, believe that
7 the first amended complaint survives, should survive the motion
8 to dismiss. The second amended complaint is not substantively
9 different. It just adds new facts that occurred following
10 the filing of the first amended complaint, but I don't think
11 it changes Your Honor's analysis.

12 I would say if Your Honor finds, though, that
13 the magic words that no reasonable party could believe that
14 their claims would survive, I don't think *Noerr-Pennington*
15 is that form his tick and Your Honor, in similar factual
16 circumstances, has said that before making that decision in
17 closing the door altogether, discovery should be permitted
18 to go forward. So at this stage, the Court should deny
19 their motion to dismiss at the pleading stage.

20 I think we have met, both as a matter of fact
21 and a matter of law, the burden under *Iqbal* and *Twombly* to
22 state the claims for which we seek relief.

23 Unless Your Honor has any further questions, I
24 think that is all at this time.

25 THE COURT: No further questions. Thank you

1 very much.

2 MR. BRAUERMAN: Thank you, Your Honor.

3 THE COURT: We'll hear rebuttal.

4 MR. FINGER: Thank you, Your Honor. Hopefully,
5 I'll be brief.

6 On Rule 408, I think Your Honor got the gist.
7 That argument is essentially a red herring. We're not
8 trying to strike a settlement document from the record. The
9 408 argument was made basically to point out the policies
10 behind settlement negotiations and their impact on the
11 settlement.

12 Probably the most important point I want to make
13 is it appears that the fraud claim is based on a statement
14 in an unsigned draft settlement proposal or licensing
15 agreement. While I admit I have not read every case ever
16 written, I would be hard pressed to imagine there is one
17 that says that the parties are bound by, and hoisted by,
18 statements in unsigned contracts. At that point, their
19 positions, they're not statements of fact.

20 And for the fraud claim, I don't know, they
21 haven't cited any case, I haven't seen any case that says
22 a statement in a draft unsigned contract is a binding
23 admission. And if mail fraud claims, other claims are based
24 on that, then I think that Your Honor will certainly be
25 making new and probably disturbing law for the transactional

1 lawyers of the world.

2 My friend said that the PTO said that the IPR
3 was baseless. I respectfully disagree. They never used
4 that word. They never said anything close to it. They said
5 that they disagreed with my client's analysis. And, again,
6 merely losing is not equivalent of being baseless.

7 Going back to *Noerr-Pennington*. We again rely
8 on the *City of Newark* case that says there must be not
9 merely a conclusory statement of sham or baselessness but
10 non-conclusory supporting facts. And,

11 Finally, on preemption. Again, the language of
12 the regulation encompasses all the elements of pretty much
13 every tort because it says any misuse -- I'm not quoting
14 about any misuse. But any abuse gives rise to a claim for
15 compensatory damages.

16 So, again, this is a case where the federal
17 regulation, I agree with my colleague there is no express
18 statutory language, but that is not the only way there is
19 preemption. There is implied preemption, and the test for
20 implied preemption is where the statute regulation corners
21 the market, covers the topic completely, and the language is
22 sufficiently broad in this case that encompasses any tort
23 claim that they could think of.

24 That's all I have, Your Honor.

25 THE COURT: Thank you. We'll take a recess.

1 Then we'll come back, and I will give you my ruling.

2 (Brief recess taken.)

3 * * *

4 (Proceedings reconvened after recess.)

5 THE COURT: Have a seat.

6 The motion was really very well briefed and very
7 well argued this morning. You answered all the questions I
8 had, so I'm in the position to make a ruling.

9 That ruling is that defendants' motion to dismiss
10 the first amended complaint is granted, plaintiff's motion for
11 leave to file a second amended complaint is denied. Let me
12 try to explain my reasoning.

13 Initially, I do find that Chinook has standing
14 to bring this case. It alleges it is injured in its efforts
15 to enforce the '482 patent due to what it characterizes as
16 defendants' extortion and other wrongful conduct; and this
17 point actually now does not seem to be contested. So my
18 dismissal is not based on a lack of standing.

19 The plaintiff specifically alleges tortious
20 interference under Virginia common law and federal racketeer-
21 ing claims, conspiracy to violate RICO and substantive RICO
22 claim as well.

23 To all these claims, I must apply the Rule
24 12(b)(6) standard which requires the Court to take all well
25 pleaded factual allegations as true and draw all reasonable

1 factual inferences in favor of the plaintiff.

2 Having done so, the Court concludes that
3 plaintiff fails to state a claim on which relief could be
4 granted. The Court essentially agrees with defendants as
5 they have characterized their arguments today that all of
6 plaintiff's claims are based on two flawed premises:

7 One, that the March 26th letter from the
8 defendants to the plaintiff is extortionate or fraudulent
9 or somehow actionable. And,

10 Two, that defendants threat to initiate the IPR
11 can constitute extortion, fraud, or otherwise be actionable.

12 I agree with the defendants that all of
13 plaintiff's claims are premised on those two premises, and
14 I agree that those two premises are flawed, which leads to
15 a conclusion that plaintiff's claims are not plausible and
16 therefore fail to state a claim on which relief may be
17 granted.

18 Notably, while the law requires me to, and I do,
19 take all well pleaded factual allegations as true, much of
20 what is alleged here is merely conclusory or stating legal
21 conclusions. In neither of those categories of allegations
22 do I need to or do I take as true in this context.

23 For instance, the allegation that the settlement
24 letter, and I just mean to call it "the March letter," but
25 the settlement letter or the letter that the plaintiff calls

1 extortionate, by calling it extortion in a complaint, I
2 don't need to take that as true. That's a legal conclusion.

3 The argument or the allegations that the IPR is
4 baseless or unfounded I find to be merely conclusory and I
5 don't need to take as true.

6 A couple of specific examples from the
7 plaintiff's brief. In their answering brief at 7, at
8 page 7, the plaintiff says the first amended complaint that
9 the letter is an extortion attempt. That allegation is
10 sufficient to avoid a motion to dismiss.

11 I disagree with that.

12 Similarly, in the plaintiff's brief at page 12,
13 the plaintiff writes: The allegation that the letter and the
14 IPR were in bad faith and baseless must be taken as true.

15 Again, I disagree that the law requires me to
16 draw those conclusions even at this stage of the proceeding.

17 Let me talk a little bit more about why I agree
18 with the defendant on the two premises being flawed.

19 First, I'm not persuaded that the letter which on
20 its face states it was sent for settlement purposes only can
21 constitute tortious interference or extortion or fraud in
22 this context. It's undisputable that public policy favors
23 settlement of disputes. Here, there is a dispute whether
24 the plaintiff wants to recognize it or not. Anyone who is
25 attempting to enforce a patent that others believe is invalid

1 is in conflict with any entity who would have any incentive
2 to see that patent invalidated. So in that context, I don't
3 believe the letter can be the basis for the causes of action
4 that the plaintiff is asserting here.

5 I'm also of the view that the defendants'
6 threat, even viewing it as such, to file an IPR cannot in
7 this context be the basis for the claims the plaintiff is
8 asserting. There are lots of cases, and they're cited in the
9 defendant's briefing, that hold that the threat of litigation
10 is not extortion. For example, the Tenth Circuit decision in
11 *U.S. v Pendergraft*.

12 Whether these cases are binding on me or not,
13 they are well reasoned as the legal system is fundamentally
14 where we want disputes such as disputes over the validity
15 of the patent to be resolved. The legal system in this
16 context includes administrative processes, particularly
17 administrative processes created by Congress. So even if
18 the 108 page draft IPR or the filed IPR was baseless and
19 unfounded, the IPR process, through both the statute and
20 regulation, has the means to deal with that. Therefore, the
21 threat and indeed the filing of the IPR, even with all the
22 other allegations, is not a plausible basis for asserting
23 the causes of action that the plaintiff asserts here.

24 I think the strongest point that the plaintiff
25 makes is that the defendant, in its initial proposed license

1 agreement, included a statement that admitted the asserted
2 patent is valid and enforceable. That's I think paragraph 5
3 of the initial draft license agreement. From this, the
4 plaintiff argues that the defendant knew that the patent
5 was valid and further knew that all of its efforts and
6 threatened efforts to invalidate the patent were baseless,
7 fraudulent, extortionate because those efforts were based on
8 the diametrically opposed view that the patent is not valid.
9 I think that is the strongest point the plaintiff makes but
10 ultimately does not, on its own or in combination with all
11 the other well pleaded factual allegations, add up to a
12 plausible claim for several reasons.

13 First, the statement in the draft license
14 agreement is actually and indisputably true. As of the date
15 of the letter, March of 2014, I think it is probably true
16 even today, the patent is valid and enforceable as a matter
17 of law.

18 Second, it was a draft license agreement. It
19 was not legally binding as a contract on the defendant or,
20 of course, on the plaintiff at that point. It is quite
21 likely there would have been negotiations and possibly
22 even changes to that language had the parties engaged in
23 negotiation. But, again, it's a draft license agreement.
24 I think that is notable when considering the plausibility
25 of the plaintiff's allegations.

1 Third, it was attached to a cover letter that
2 expressly stated the validity of the asserted patent is
3 questioned. The cover letter that also attached the 108
4 panel draft IPR that showed at least one way that the
5 validity of the patent could be questioned. So in context,
6 it is implausible to think that the plaintiff did not know
7 what the defendants' view was of the validity of the patent.
8 It's implausible to think that the plaintiff or anyone else
9 would have been deceived by the one sentence in the draft
10 license agreement.

11 So for at least those reasons, while this is
12 again I think the strongest point the plaintiff makes, I
13 don't think it adds up in the end.

14 Given my conclusions, I find I need not
15 reach the issues of preemption, the application of the
16 *Noerr-Pennington* doctrine, or the absolute privilege,
17 although I should say I don't reject any of those as
18 additional potential bases to dismiss. I just say I do
19 not need to reach them because all of the claims are not
20 plausible. They fail to state a claim for relief given
21 my conclusions that I have already set out.

22 I'll just briefly mention the plaintiff's motion
23 for leave to file a second amended complaint, as I said, is
24 denied.

25 Were I to keep the case, were the case not being

1 dismissed with prejudice, I would grant leave to amend as
2 it would seem in that instance to be fully appropriate to
3 update the factual allegations. But I think we all agree
4 that given the conclusions I have reached about the flawed
5 premises of the claims, the proposed amended -- proposed
6 second amended complaint is futile for the same reasons that
7 I have given in dismissing and granting the dismissal of the
8 first amended complaint.

9 So we'll get a short order out indicating that
10 these are the rulings I have made.

11 Is there anything further we should talk about
12 while we're together, Mr. Finger?

13 MR. FINGER: Nothing. Thank you, Your Honor.

14 THE COURT: Mr. Brauerman.

15 MR. BRAUERMAN: Not from the plaintiff, Your
16 Honor.

17 THE COURT: We will be in recess. Thank you.

18 (Hearing ends at 10:31 a.m.)
19

20 I hereby certify the foregoing is a true and accurate
21 transcript from my stenographic notes in the proceeding.

22 /s/ Brian P. Gaffigan
23 Official Court Reporter
24 U.S. District Court
25